

6. Mr. Levit represented, among other things, that Penn Treaty had more than 43,000 agents and was receiving 10,000-15,000 long-term care insurance applications per month with 10% to 15% of such applicants being rejected as uninsurable.

7. Knowing Penn Treaty's agents' historical sales performance, Mr. Levit conservatively estimated that at least 20% of all agents ($43,000 \times 20\% = 8,600$) would sell one AllRisk Healthcare® membership per month, resulting in at least 8,600 sales per month.

8. These assumptions were embodied in projections dated September 28, 1999, copies of which are attached hereto, and resulted in a conservative net income estimate of \$281,790,000 to be divided by the parties in the first five years of the program.

PENN TREATY'S TEST MARKET

9. In February 2000, a "test market" was conducted on NHCS's AllRisk Healthcare® product using approximately 40 agents over a 4¼-month period.

10. The test market resulted in 400 AllRisk Healthcare® memberships sold, with gross revenue exceeding \$350,000.

11. According to Glen Levit, these results were in line with the September 28, 1999 projections and Penn Treaty agreed to move forward.

PENN TREATY'S OWN AGENTS SUPPORT THE PRODUCT LAUNCH

12. After continuing delays, the death of Glen Levit and the resulting turmoil, Penn Treaty eventually released the AllRisk Healthcare® program in February 2001 to a limited number of states with little or no marketing support.

13. As a direct consequence of Penn Treaty's inattention to the marketing of the AllRisk Healthcare® program during this release, sales dropped by approximately 50% for the same 4¼-month period as the test market, with revenue correspondingly decreasing to \$158,350.

14. Nevertheless, the reception from the agents was phenomenal as Penn Treaty's management reported that agent contracts were arriving at Penn Treaty's offices in bulk.

15. During this period, approximately 870 agents signed contracts to sell the AllRisk Healthcare® product.

16. Ultimately, more than 1,370 agents signed up before Penn Treaty terminated the AllRisk Healthcare® program in November 2001.

THE TEST MARKET VALIDATES THE PROJECTIONS

17. In the first 4¼ months of test marketing, the AllRisk Healthcare® program generated more than \$83,000 in sales per month with just 40 agents.

18. Extrapolating this to Penn Treaty's 43,000 agents, the monthly gross revenue should have been over \$90,000,000.

19. Viewed differently, the annualized sales of those 40 agents would be \$1,092,181, or roughly \$27,300 per agent.

20. Assuming that each of Penn Treaty's 43,000 agents would sell in proportion with these numbers, the eventual annual sales would exceed \$1,170,000,000.

21. If, as Glen Levit suggested, only the top 20% of agents performed, the annual New Policy Revenue would still exceed \$234,000,000.

22. By comparison, the September 28, 1999 projections showed \$136,600,000 in New Policy Revenue and \$127,100,000 in Renewal Policy Revenue. To meet those revenue figures, only 5,000 agents – less than 12% of Penn Treaty's sales force – would each need to produce \$27,300 in memberships per year; at an average price of \$800 per household, that translates to less than three memberships per month sold by each agent.

23. Again, using the September 28, 1999 projections as a template, and inserting the test market data, New Sales Revenue would grow from \$34 million the first year to over \$295 million by the end of year five.

24. With a renewal rate of 50%, the cumulative net profit over five years is \$574,692,650.

25. With a renewal rate of 90% -- a renewal rate comparable to that of other companies now in this market -- the cumulative net profit exceeds \$800 million.¹

THE LAUNCH VALIDATES THE PROJECTIONS

26. In the first 4¼ months of Penn Treaty's launch, the AllRisk Healthcare® program generated \$37,250 per month in New Policy Revenue (\$158,350 divided by 4.25 months).

27. Annualized, this would be approximately \$450,000 per year.

28. If the 870 agents who signed contracts to sell AllRisk Healthcare® during this period had begun selling from the first day of release (rather than some being added each day as really happened), this would mean each agent would have generated an average of \$514 per year.

29. Extrapolating this figure to Penn Treaty's stable of 43,000 agents, the annual New Policy Revenue would have been over \$22,000,000.

30. Significantly, at an average price of \$800 per household, that translates to each agent selling just one membership every other month.

31. The test market and product launch were conducted (a) in a limited number of states, (b) with virtually no marketing support, and (c) with no mailings being made to long-term

¹ All of these projections assume that only Penn Treaty's own agents would sell NHCS's AllRisk Healthcare® product. However, the parties' Agreement was not so limiting. As contemplated by the parties, NHCS made efforts to establish outside sales, but Penn Treaty derailed such efforts. The projections adopted by Glen Levit also envisioned adding 10,000 agents per year.

care insurance "turndowns" as agreed. NHCS's AllRisk Healthcare® program would have been even more successful if Penn Treaty had marketed the product as it represented it would.

32. I hereby certify under penalty of perjury that the foregoing is true and correct.


NEAL FORMAN

DATED: January 14, 2004

National Healthcare Services, Inc.

4523 102nd Lane N.E., Kirkland, WA 98033
Tel 425-450-4000 Fax 425-822-6306

September 28, 1999

Mr. Glen A. Levit, President

Ms. Jane M. Bagley, Esquire

The Penn Treaty American Corporation
3440 Lehigh Street
Allentown, Pennsylvania 18103

Dear Glen and Jane:

Enclosed are *All Risk Healthcare*SM projections for the first five years, as well as other information you have requested.

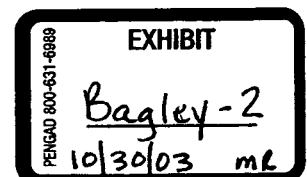
We believe the projections are based on very conservative assumptions and yet generate very significant profits. You can see why we have had so much interest from other insurance partners.

We hope this answers any remaining questions and we are looking forward to a long and mutually profitable relationship.

Sincerely,

Neal A. Forman
CEO

NAF/cb



Cumulative Summary of 9/28/99 Projections**Assumptions**

1000 new agents are trained every month

20% of all trained agents sell one policy per month at an average annual premium of \$ 1,000.

All premiums are annual and all expenses, commissions, are paid in the month sold

On the 1 year anniversary of purchasing policy, 50% renew every year. (I.e. 1,000 purchase, 2nds year 500 remain, 3rd year 500 remain, 4th year 500 remain, 5th year 500 remain, etc.)

Commissions are 60% first year, 20% on renewals

28-Sep-99

Fifth Year - 2004 Projections	Year 1 Year End	Year 2 Year End	Year 3 Year End	Year 4 Year End	Year 5 Year End
Number of Trained Agents					
Number of Trained Penn Treaty Agents	14,000	26,000	38,000	50,000	62,000
Number of Trained Other Agents	-	-	-	-	-
Total Number of Trained Agents	14,000	26,000	38,000	50,000	62,000
New Sales					
%Trained Agents who Sell One/Month	20%	20%	20%	20%	20%
Number of New Policies Sold	20,200	49,200	78,000	106,800	135,600
Renewals					
% of Policyholders Who Renew	-	50%	50%	50%	50%
Number of Policyholders Who Renew	-	10,100	34,700	73,700	127,100
New and Renewals This Year	20,200	59,300	112,700	180,500	262,700
National Healthcare Services Income Statement					
New Policies					
Number New Policies Sold	20,200	49,200	78,000	106,800	135,600
New Policy Revenue @ \$ 1000	\$ 20,200,000	\$ 49,200,000	\$ 78,000,000	\$ 106,800,000	\$ 135,600,000
Cost of Sales					
Annual Program Cost \$ 100 Per HH	2,020,000	4,920,000	7,800,000	10,680,000	13,560,000
First Year Commissions 60%	12,120,000	29,520,000	46,800,000	64,080,000	81,360,000
Total New Policy Cost of Sales	14,140,000	34,440,000	54,600,000	74,760,000	94,920,000
New Policy Gross Profit	6,060,000	14,760,000	23,400,000	32,040,000	40,680,000
Renewal Policies					
Number Policies Renewed	-	10,100	24,600	73,700	127,100
Renewed Policy Revenue @ \$1,000	-	10,100,000	24,600,000	73,700,000	127,100,000
Cost of Sales					
Annual Program Cost \$ 100 Per HH	-	1,010,000	2,460,000	7,370,000	12,710,000
Renewal Commissions 20%	-	2,020,000	4,920,000	14,740,000	25,420,000
Total Renewed Policy Cost of Sales	-	3,030,000	7,380,000	22,110,000	38,130,000
Renewed Policies Gross Profit	-	7,070,000	17,220,000	51,590,000	88,970,000
Total Gross Profit New + Renewals	6,060,000	21,830,000	40,620,000	83,630,000	129,650,000

Cumulative	6,060,000	27,890,000	68,510,000	152,140,000	281,790,000
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28 SEP 99

Third Year Projections	NOV 2001	DEC 2001	JAN 2002	FEB 2002	MAR 2002	APR 2002	MAY 2002	JUN 2002	JUL 2002	AUG 2002	SEP 2002	OCT 2002	Year End 2002
Number of Trained Agents	27,000	28,000	29,000	30,000	31,000	32,000	33,000	34,000	35,000	36,000	37,000	38,000	38,000
Number of Trained from Twenty Agents	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of Trained from Other Agents	27,000	28,000	29,000	30,000	31,000	32,000	33,000	34,000	35,000	36,000	37,000	38,000	38,000
Total Number of Trained Agents	27,000	28,000	29,000	30,000	31,000	32,000	33,000	34,000	35,000	36,000	37,000	38,000	38,000
New Sales	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
% Trained Agents who Sell One Month	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
Number of New Policies Sold	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
Total Policies Sold This Year	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
Renewals	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
% of Policies Who Renew	1,700	2,000	2,200	2,400	2,600	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
Number of Policyholders Who Renew	1,700	2,000	2,200	2,400	2,600	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
New and Renewals This Month	7,100	7,600	8,000	8,400	8,800	9,200	9,600	10,000	10,400	10,800	11,200	11,600	12,000

National Healthcare Services Income Statement

New Policies	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
Number New Policies Sold	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
New Policy Revenue @ \$1,000	\$ 5,400,000	\$ 5,600,000	\$ 5,800,000	\$ 6,000,000	\$ 6,200,000	\$ 6,400,000	\$ 6,600,000	\$ 6,800,000	\$ 7,000,000	\$ 7,200,000	\$ 7,400,000	\$ 7,600,000	\$ 7,800,000
Cost of Sales	\$ 540,000	\$ 560,000	\$ 580,000	\$ 600,000	\$ 620,000	\$ 640,000	\$ 660,000	\$ 680,000	\$ 700,000	\$ 720,000	\$ 740,000	\$ 760,000	\$ 780,000
Annual Program Cost \$ 100 Per HH	\$ 540,000	\$ 560,000	\$ 580,000	\$ 600,000	\$ 620,000	\$ 640,000	\$ 660,000	\$ 680,000	\$ 700,000	\$ 720,000	\$ 740,000	\$ 760,000	\$ 780,000
First Year Commission 60%	\$ 3,240,000	\$ 3,360,000	\$ 3,480,000	\$ 3,600,000	\$ 3,720,000	\$ 3,840,000	\$ 3,960,000	\$ 4,080,000	\$ 4,200,000	\$ 4,320,000	\$ 4,440,000	\$ 4,560,000	\$ 4,680,000
Total Revenue Policy Cost of Sales	\$ 3,780,000	\$ 3,920,000	\$ 4,060,000	\$ 4,200,000	\$ 4,340,000	\$ 4,480,000	\$ 4,620,000	\$ 4,760,000	\$ 4,900,000	\$ 5,040,000	\$ 5,180,000	\$ 5,320,000	\$ 5,460,000
New Policy Gross Profit	\$ 1,620,000	\$ 1,680,000	\$ 1,740,000	\$ 1,800,000	\$ 1,860,000	\$ 1,920,000	\$ 1,980,000	\$ 2,040,000	\$ 2,100,000	\$ 2,160,000	\$ 2,220,000	\$ 2,280,000	\$ 2,340,000
Renewal Policies	1,600	1,600	1,700	1,800	1,900	2,000	2,100	2,200	2,300	2,400	2,500	2,600	2,600
Number Policies Renewed	1,600	1,600	1,700	1,800	1,900	2,000	2,100	2,200	2,300	2,400	2,500	2,600	2,600
Renewal Policy Revenue @ \$1,000	\$ 1,600,000	\$ 1,600,000	\$ 1,700,000	\$ 1,800,000	\$ 1,900,000	\$ 2,000,000	\$ 2,100,000	\$ 2,200,000	\$ 2,300,000	\$ 2,400,000	\$ 2,500,000	\$ 2,600,000	\$ 2,600,000
Cost of Sales	\$ 150,000	\$ 160,000	\$ 170,000	\$ 180,000	\$ 190,000	\$ 200,000	\$ 210,000	\$ 220,000	\$ 230,000	\$ 240,000	\$ 250,000	\$ 260,000	\$ 2,440,000
Annual Program Cost \$ 100 Per HH	\$ 150,000	\$ 160,000	\$ 170,000	\$ 180,000	\$ 190,000	\$ 200,000	\$ 210,000	\$ 220,000	\$ 230,000	\$ 240,000	\$ 250,000	\$ 260,000	\$ 2,440,000
Renewal Commission 20%	\$ 300,000	\$ 320,000	\$ 340,000	\$ 360,000	\$ 380,000	\$ 400,000	\$ 420,000	\$ 440,000	\$ 460,000	\$ 480,000	\$ 500,000	\$ 520,000	\$ 4,720,000
Total Revenue Policy Cost of Sales	\$ 450,000	\$ 480,000	\$ 510,000	\$ 540,000	\$ 570,000	\$ 600,000	\$ 630,000	\$ 660,000	\$ 690,000	\$ 720,000	\$ 750,000	\$ 780,000	\$ 7,380,000
Renewal Policy Gross Profit	\$ 1,050,000	\$ 1,120,000	\$ 1,190,000	\$ 1,260,000	\$ 1,330,000	\$ 1,400,000	\$ 1,470,000	\$ 1,540,000	\$ 1,610,000	\$ 1,680,000	\$ 1,750,000	\$ 1,820,000	\$ 17,220,000
Total Gross Profit New + Renewals	\$ 2,670,000	\$ 2,800,000	\$ 2,930,000	\$ 3,060,000	\$ 3,190,000	\$ 3,320,000	\$ 3,450,000	\$ 3,580,000	\$ 3,710,000	\$ 3,840,000	\$ 3,970,000	\$ 4,100,000	\$ 40,720,000

28-SEP-99

Fourth Year Projections	NOV 2002	DEC 2002	JAN 2003	FEB 2003	MAR 2003	APR 2003	MAY 2003	JUN 2003	JUL 2003	AUG 2003	SEP 2003	OCT 2003	Year 4 2003
Number of Trained Agents	38,000	40,000	41,000	42,000	43,000	44,000	45,000	46,000	47,000	48,000	49,000	50,000	50,000
Number of Trained from Twenty Agents	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of Trained from Other Agents	38,000	40,000	41,000	42,000	43,000	44,000	45,000	46,000	47,000	48,000	49,000	50,000	50,000
Total Number of Trained Agents	38,000	40,000	41,000	42,000	43,000	44,000	45,000	46,000	47,000	48,000	49,000	50,000	50,000
New Sales	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
% Trained Agents who Sell One Month	7,600	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	10,000	100,800
Number of New Policies Sold	7,600	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	10,000	100,800
Total Policies Sold This Year	7,600	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	10,000	100,800
Renewals	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
% of Policies Who Renew	4,000	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500	7,800	73,700
Number of Policyholders Who Renew	4,000	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500	7,800	73,700
New and Renewals This Month	12,200	12,800	13,300	13,800	14,300	14,800	15,300	15,800	16,300	16,800	17,300	17,800	180,500

National Healthcare Services Income Statement

New Policies	7,600	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	10,000	100,800
Number New Policies Sold	7,600	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	10,000	100,800
New Policy Revenue @ \$1,000	\$ 7,600,000	\$ 8,000,000	\$ 8,200,000	\$ 8,400,000	\$ 8,600,000	\$ 8,800,000	\$ 9,000,000	\$ 9,200,000	\$ 9,400,000	\$ 9,600,000	\$ 9,800,000	\$ 10,000,000	\$ 1,008,000,000
Cost of Sales	\$ 760,000	\$ 800,000	\$ 820,000	\$ 840,000	\$ 860,000	\$ 880,000	\$ 900,000	\$ 920,000	\$ 940,000	\$ 960,000	\$ 980,000	\$ 1,000,000	\$ 10,080,000
Annual Program Cost \$ 100 Per HH	\$ 760,000	\$ 800,000	\$ 820,000	\$ 840,000	\$ 860,000	\$ 880,000	\$ 900,000	\$ 920,000	\$ 940,000	\$ 960,000	\$ 980,000	\$ 1,000,000	\$ 10,080,000
First Year Commission 60%	\$ 4,560,000	\$ 4,800,000	\$ 4,920,000	\$ 5,040,000	\$ 5,160,000	\$ 5,280,000	\$ 5,400,000	\$ 5,520,000	\$ 5,640,000	\$ 5,760,000	\$ 5,880,000	\$ 6,000,000	\$ 604,800,000
Total Revenue Policy Cost of Sales	\$ 5,320,000	\$ 5,600,000	\$ 5,720,000	\$ 5,840,000	\$ 5,960,000	\$ 6,080,000	\$ 6,300,000	\$ 6,420,000	\$ 6,540,000	\$ 6,660,000	\$ 6,780,000	\$ 6,900,000	\$ 694,880,000
New Policy Gross Profit	\$ 2,240,000	\$ 2,400,000	\$ 2,480,000	\$ 2,560,000	\$ 2,640,000	\$ 2,720,000	\$ 2,700,000	\$ 2,780,000	\$ 2,860,000	\$ 2,940,000	\$ 3,020,000	\$ 3,100,000	\$ 313,120,000
Renewal Policies	4,400	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500	7,800	73,700
Number Policies Renewed	4,400	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500	7,800	73,700
Renewal Policy Revenue @ \$1,000	\$ 4,400,000	\$ 4,800,000	\$ 5,100,000	\$ 5,400,000	\$ 5,700,000	\$ 6,000,000	\$ 6,300,000	\$ 6,600,000	\$ 6,900,000	\$ 7,200,000	\$ 7,500,000	\$ 7,800,000	\$ 737,000,000
Cost of Sales	\$ 440,000	\$ 480,000	\$ 510,000	\$ 540,000	\$ 570,000	\$ 600,000	\$ 630,000	\$ 660,000	\$ 690,000	\$ 720,000	\$ 750,000	\$ 780,000	\$ 7,370,000
Annual Program Cost \$ 100 Per HH	\$ 440,000	\$ 480,000	\$ 510,000	\$ 540,000	\$ 570,000	\$ 600,000	\$ 630,000	\$ 660,000	\$ 690,000	\$ 720,000	\$ 750,000	\$ 780,000	\$ 7,370,000
Renewal Commission 20%	\$ 880,000	\$ 960,000	\$ 1,020,000	\$ 1,080,000	\$ 1,140,000	\$ 1,200,000	\$ 1,260,000	\$ 1,320,000	\$ 1,380,000	\$ 1,440,000	\$ 1,500,000	\$ 1,560,000	\$ 14,740,000
Total Revenue Policy Cost of Sales	\$ 1,320,000	\$ 1,440,000	\$ 1,530,000	\$ 1,620,000	\$ 1,710,000	\$ 1,800,000	\$ 1,890,000	\$ 1,980,000	\$ 2,070,000	\$ 2,160,000	\$ 2,250,000	\$ 2,340,000	\$ 22,110,000
Renewal Policy Gross Profit	\$ 3,080,000	\$ 3,240,000	\$ 3,370,000	\$ 3,530,000	\$ 3,690,000	\$ 3,850,000	\$ 4,010,000	\$ 4,170,000	\$ 4,330,000	\$ 4,490,000	\$ 4,650,000	\$ 4,810,000	\$ 47,350,000
Total Gross Profit New + Renewals	\$ 6,420,000	\$ 6,740,000	\$ 6,950,000	\$ 7,160,000	\$ 7,390,000	\$ 7,620,000	\$ 7,830,000	\$ 8,070,000	\$ 8,310,000	\$ 8,550,000	\$ 8,790,000	\$ 9,030,000	\$ 87,470,000

25-Sep-99

Fifth Year	NOV 2003	DEC 2003	JAN 2004	FEB 2004	MAR 2004	APR 2004	MAY 2004	JUN 2004	JUL 2004	AUG 2004	SEP 2004	OCT 2004	Year End
Projections													
Number of Trained Agents	51,000	52,000	53,000	54,000	55,000	56,000	57,000	58,000	59,000	60,000	61,000	62,000	62,000
Number of Trained Part Time Agents	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of Trained Other Agents	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Number of Trained Agents	51,000	52,000	53,000	54,000	55,000	56,000	57,000	58,000	59,000	60,000	61,000	62,000	62,000
New Sales													
% Trained Agents who Sell One Month	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Number of New Policies Sold	10,200	10,400	10,600	10,800	11,000	11,200	11,400	11,600	11,800	12,000	12,200	12,400	124,000
Total Policies Sold This Year	10,200	20,600	31,200	42,000	53,000	64,200	75,600	87,200	99,000	111,000	123,200	135,600	135,600
Renewals													
% of Policies Who Renew	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Number of Policyholders Who Renew	8,300	8,800	9,300	9,800	10,300	10,800	11,300	11,800	12,300	12,800	13,300	13,800	137,100
New and Renewals This Month	18,500	19,200	19,900	20,400	21,000	21,600	22,300	23,000	23,400	24,000	24,600	25,200	262,700
National Healthcare Services Income Statement													
New Policies													
Number New Policies Sold	10,200	10,400	10,600	10,800	11,000	11,200	11,400	11,600	11,800	12,000	12,200	12,400	135,600
New Policy Revenue @ \$1,000	\$ 10,200,000	\$ 10,400,000	\$ 10,600,000	\$ 10,800,000	\$ 11,000,000	\$ 11,200,000	\$ 11,400,000	\$ 11,600,000	\$ 11,800,000	\$ 12,000,000	\$ 12,200,000	\$ 12,400,000	\$ 135,600,000
Cost of Sales													
Annual Program Cost \$ 100 Per MH	\$ 1,020,000	\$ 1,040,000	\$ 1,060,000	\$ 1,080,000	\$ 1,100,000	\$ 1,120,000	\$ 1,140,000	\$ 1,160,000	\$ 1,180,000	\$ 1,200,000	\$ 1,220,000	\$ 1,240,000	\$ 13,640,000
First Year Commissions 60%	\$ 6,120,000	\$ 6,240,000	\$ 6,360,000	\$ 6,480,000	\$ 6,600,000	\$ 6,720,000	\$ 6,840,000	\$ 6,960,000	\$ 7,080,000	\$ 7,200,000	\$ 7,320,000	\$ 7,440,000	\$ 81,280,000
Total New Policy Cost of Sales	\$ 7,140,000	\$ 7,280,000	\$ 7,420,000	\$ 7,560,000	\$ 7,700,000	\$ 7,840,000	\$ 7,980,000	\$ 8,120,000	\$ 8,260,000	\$ 8,400,000	\$ 8,540,000	\$ 8,680,000	\$ 94,920,000
New Policy Gross Profit	\$ 3,060,000	\$ 3,120,000	\$ 3,180,000	\$ 3,240,000	\$ 3,300,000	\$ 3,360,000	\$ 3,420,000	\$ 3,480,000	\$ 3,540,000	\$ 3,600,000	\$ 3,660,000	\$ 3,720,000	\$ 40,680,000
Renewed Policies													
Number Policies Renewed	8,300	8,800	9,300	9,800	10,300	10,800	11,300	11,800	12,300	12,800	13,300	13,800	127,100
Renewed Policy Revenue @ \$1,000	\$ 8,300,000	\$ 8,800,000	\$ 9,300,000	\$ 9,800,000	\$ 10,300,000	\$ 10,800,000	\$ 11,300,000	\$ 11,800,000	\$ 12,300,000	\$ 12,800,000	\$ 13,300,000	\$ 13,800,000	\$ 127,100,000
Cost of Sales													
Annual Program Cost \$ 100 Per MH	\$ 830,000	\$ 880,000	\$ 930,000	\$ 980,000	\$ 1,030,000	\$ 1,080,000	\$ 1,130,000	\$ 1,180,000	\$ 1,230,000	\$ 1,280,000	\$ 1,330,000	\$ 1,380,000	\$ 12,710,000
Renewal Commissions 20%	\$ 1,660,000	\$ 1,760,000	\$ 1,860,000	\$ 1,920,000	\$ 2,060,000	\$ 2,160,000	\$ 2,260,000	\$ 2,360,000	\$ 2,460,000	\$ 2,560,000	\$ 2,660,000	\$ 2,760,000	\$ 25,420,000
Total Renewed Policy Cost of Sales	\$ 2,490,000	\$ 2,640,000	\$ 2,790,000	\$ 2,900,000	\$ 3,090,000	\$ 3,240,000	\$ 3,390,000	\$ 3,540,000	\$ 3,690,000	\$ 3,840,000	\$ 3,990,000	\$ 4,140,000	\$ 38,130,000
Renewed Policies Gross Profit	\$ 5,810,000	\$ 6,160,000	\$ 6,510,000	\$ 6,880,000	\$ 7,210,000	\$ 7,560,000	\$ 7,910,000	\$ 8,260,000	\$ 8,610,000	\$ 8,960,000	\$ 9,310,000	\$ 9,660,000	\$ 88,970,000
Total Gross Profit New + Renewals	\$ 8,970,000	\$ 9,280,000	\$ 9,690,000	\$ 10,120,000	\$ 10,510,000	\$ 10,960,000	\$ 11,340,000	\$ 11,720,000	\$ 12,100,000	\$ 12,480,000	\$ 12,860,000	\$ 13,240,000	\$ 128,650,000

Assumptions

1000 new agents are trained every month
 20% of all trained agents sell one policy per month at an average annual premium of \$ 1,000.
 All premiums are annual and all expenses, commissions, are paid in the month sold
 On the 1 year anniversary of purchasing the policy, 60% renew every year. (i.e. 1,000 purchase, 2nd year 600 remain, 3rd year 600 remain, 4th year 600 remain, 5th year 600 remain, etc.)
 Commissions are 60% first year, 20% on renewals

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

NATIONAL HEALTHCARE SERVICES, INC., :

Plaintiff, :

v. :

**PENN TREATY AMERICAN
CORPORATION, et al.** :

Defendants. :

**CIVIL ACTION
NO. 02-CV-3600**

CERTIFICATION OF NEAL FORMAN

Neal Forman, being duly sworn according to law, hereby certifies that:

1. I am the chief executive officer of National Healthcare Services, Inc. ("NHCS"), the plaintiff in the above-referenced case.

THE ALLRISK HEALTHCARE[®] PROJECTIONS

2. During the development phase of the AllRisk Healthcare[®] product, NHCS contracted with a third party to build various program components.

3. That third party – Web Barth – was enlisted by Penn Treaty to project the revenue the AllRisk Healthcare[®] program could conservatively generate based upon the assets and information supplied by Penn Treaty.

4. Glen Levit, the late president of Penn Treaty, dealt directly with Mr. Barth and me in developing the projections.

5. I told Mr. Levit that AllRisk Healthcare[®] was designed for those people who were rejected for long-term care insurance. Mr. Levit agreed that Penn Treaty would market AllRisk Healthcare[®] to that group of people.

